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AUTHOR Cook, Thomas J.
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ABSTRACT

Information on provisions of group life insurance plans and the tendency of colleges and universities to provide this coverage is considered. There has been an increase in the percentage of institutions adopting group life insurance plans over the last decade. Absence of coverage is concentrated among smaller two-year and four-year institutions with relatively few employees. In addition to providing basic protection for all eligible employees, group life insurance enables the purchase of more insurance premium dollars than do most individual life policies, and no physical examination is required, except on late enrollment. Benefits payable under a group plan may be assigned as a flat amount, by age, or according to salary or job category. About 30 percent of both public and independent four-year institutions incorporate a decreasing pattern of benefits based on age in their assignment of group insurance benefits. In addition to life insurance benefits and the death benefits of a retirement plan, there may be substantial monthly survivor benefits from Social Security. About 60 percent of the four-year institutions report that accidental death and dismemberment provisions are included in their life insurance plans, as do about 75 percent of two-year institutions. Other decisions institutions must make concerning group life insurance plans include: (1) classes of employees eligible for coverage, (2) waiting period for participation, (3) roles of employer and employee in applying for the insurance, (4) coverage for dependents, and (5) continuation of coverage for retired employees. (SW)

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The Status of Group Life Insurance Plans

by THOMAS J. COOK

The value of group life insurance coverage is widely recognized in higher education. About nine out of ten employees—faculty, administrative and other professionals, and clerical and service personnel—now work at institutions providing a group life insurance plan. Absence of coverage is concentrated among smaller, independent two- and four-year institutions with relatively few employees. Changes over the last decade in the percentage of institutions reporting a group life plan indicate that the increase in plans has been due primarily to adoption of the coverage by smaller institutions. The next decade may see the remaining gap nearly closed as smaller institutions continue adding group life coverage for their employees.

Group life insurance is not a substitute for an individual's own insurance arrangements. Under an employer-sponsored group plan, however, an institution can assure every employee an insurance amount that provides basic protection for dependent survivors. Group life is generally written as term insurance with no cash values.

In addition to providing basic protection for all eligible employees, group life insurance offers other advantages. More insurance per premium dollar can be purchased on a group basis than under most individual life policies. The lower cost results, in part, from lower administrative expenses and from elimination of the expense of physical examinations to determine insurability. The lack of a physical examination requirement (except on late enrollment) also makes group life insurance of considerable value to staff members who, because of their health, could not obtain individual insurance at all or at a standard rate.

Thomas J. Cook is a research analyst with Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). *This article is based on a survey of retirement and insurance plans in colleges and universities carried out as research for* Benefit Plans in Higher Education, *published by the Columbia University Press in February 1980. The book was written by Cook and Francis P. King, senior research officer for TIAA-CREF.*

Benefits

Benefits payable under a group life insurance plan may be assigned as a flat amount, by age, or according to salary or job category. A flat amount provides the same insurance for everyone or for all covered persons in a stated employee classification. In a salary-related plan, each employee's insurance amount may be specified as a multiple, e.g., 1 or 1½ times salary, or assigned according to salary brackets. Under this pattern, insurance amounts increase as salary increases. Both public and independent four-year and public two-year institutions reported a multiple-of-salary allocation most frequently for all employee categories; independent two-year institutions reported a flat amount most frequently (Exhibit 1).

About 30 percent of both public and independent four-year institutions incorporate a decreasing pattern of benefits based on age in their assignment of group insurance amounts, a pattern that coordinates well with the individual's changing insurance needs. This pattern is reported also by about 15 percent of public and about 25 percent of independent two-year institutions. Generally, the need is greatest at earlier ages when employees are most likely to have young children and be at lower salary levels. In addition, life insurance for younger staff members costs less than the same amount for older staff, so an institution can apply its funds at a point where they will be most useful as well as most economical.

A decreasing schedule also coordinates well with accumulating death benefits under a retirement plan. Fully and immediately vested defined contribution plans, such as TIAA-CREF, pay a benefit at death prior to retirement equal to the sum of total net contributions and their credited investment earnings. This benefit is small initially but builds to a substantial amount as participation continues. Defined benefit plans usually incorporate service requirements, sometimes with an associated age requirement, for survivor benefits eligibility; of the major public retirement systems covering employees in higher education, 40 out of 45 systems providing survivor benefits prior to eligibility for retirement specify years-of-service requirements ranging from one to 25 years (nine years on average).

Decreasing insurance may be scheduled by age alone, by age and salary multiple, or by units of insurance under a collective insurance plan. Final interpretations of the Age Discrimination in Employment Act permit age-related benefit reductions to be made on the basis of age brackets of up to five years. Reductions in insurance amounts for any given age bracket can be no greater than is justified by the increased cost of

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coverage for that age bracket over the next lower age bracket.

The following example illustrates a decreasing insurance schedule based on age:

Age Classification	*Amount of Life Insurance*
Under age 25	$50,000
25 through 29	45,000
30 through 34	40,000
35 through 39	35,000
40 through 44	30,000
45 through 49	25,000
50 through 54	20,000
55 through 59	15,000
60 and over	10,000

Another method continues the direct relationship of insurance to salary until age 35 or 40, and then reduces the insurance proportion thereafter. In the following example of this type of plan, insurance of four-times-salary is provided through age 35. The multiple is then reduced by 0.5 for each succeeding five-year age bracket, until it reaches one-times-salary at age 60 and over.

Age Classification	*Salary Multiple*
Under age 35	4.0
35 through 39	3.5
40 through 44	3.0
45 through 49	2.5
50 through 54	2.0
55 through 59	1.5
60 and over	1.0

In addition to life insurance benefits and the death benefits of a retirement plan, there may be substantial monthly survivor benefits from social security. These benefits, generally, are paid to a surviving spouse age 60 or over, surviving spouses of any age or surviving divorced mothers with children under age 18 in their care, unmarried children under age 18 (under 22, if students), a surviving divorced wife age 60 or over and dependent parents age 62 or over. A small lump sum death benefit of $255 is also payable. After the youngest child reaches age 18, however, no benefits are payable until the surviving spouse reaches age 60, and the income from social security alone is inadequate to do the whole job of raising a family.

About 60 percent of the four-year institutions report that AD&D (accidental death and dismemberment provisions) are included in their life insurance plans, as do about 75 percent of two-year institutions, with no significant difference between faculty, administrative, and clerical-service employee groups. Public institutions are somewhat more likely to include the AD&D coverage than the independent institutions. AD&D usually provides benefits equal to the amount of group life insurance where death is caused by an accident (as contrasted with illness). A schedule of benefits is also payable in case of the loss of stated parts of the body.

Taken together, about 43 percent of all institutions in the survey with life insurance plans permit participants to purchase at their own expense extra amounts of group coverage beyond that provided under the basic schedule of benefits.

Exhibit 1: Allocation of Insurance Amounts in Group Life Insurance Plans—Two- and Four-Year Institutions

Four-Year Institutions

	Faculty [a]				Clerical-Service			
	Public		Independent		Public		Independent	
Insurance Pattern	Percent Institutions	Percent Employees	Percent Institutions	Percent Employees	Percent Institutions	Percent Employees	Percent Institutions	Percent Employees
A.	n=433	n=225,459	n=769	n=114,807	n=430	n=388,434	n=741	n=178,775
1. Multiple of salary	57.3	62.2	39.9	54.3	55.1	66.1	36.7	53.3
2. Job or salary category	23.6	20.1	23.0	20.8	23.7	17.6	23.2	22.6
3. Flat amount for all employees	18.9	17.2	21.6	11.8	20.9	17.0	28.1	16.1
4. Collective insurance	2.3	2.8	15.7	12.1	2.1	1.7	12.1	7.3
5. Other	5.8	7.0	5.7	7.9	6.5	6.2	5.3	6.1
B.								
1. Decreases with age	29.1	36.0	32.8	38.7	28.8	37.4	28.1	29.0
2. Increases with salary	73.2	74.7	50.6	61.0	71.2	76.9	47.8	63.3
3. No change — age/salary	21.9	21.4	24.6	15.9	24.7	23.1	31.3	21.1

Two-Year Institutions

A.	n=528	n=59,332	n=61	n=1,795	n=522	n=58,282	n=57	n=1,758
1. Multiple of salary	42.4	43.9	26.2	39.7	40.2	41.7	28.1	37.4
2. Job or salary category	21.8	15.6	24.6	25.3	21.6	15.6	26.3	28.6
3. Flat amount for all employees	29.5	31.7	41.0	27.9	30.8	31.4	38.6	26.6
4. Collective insurance	2.7	4.1	9.8	10.4	2.7	6.0	8.8	10.0
5. Other	5.5	6.8	3.3	2.0	6.1	7.2	3.5	4.7
B.								
1. Decreases with age	15.5	17.1	26.2	23.2	15.7	17.9	24.6	22.0
2. Increases with salary	55.1	51.6	37.7	50.4	53.4	51.7	40.4	53.0
3. No change — age/salary	34.5	36.5	44.3	32.8	35.6	38.1	43.9	31.3

[a] Administrative and other professional personnel similar to faculty.

Other Provisions

In addition to selecting the insurance amounts and method of assigning benefits, an institution must make other decisions concerning its group life insurance plan. These include (1) classes of employees eligible for coverage; (2) waiting period for participation; (3) roles of employer and employee in paying for the insurance; (4) coverage for dependents; and (5) continuation of coverage for retired employees.

Eligibility for Coverage. No matter what a staff member's job or length of time working for an institution, death may leave his or her family with serious financial problems. Most institutions, therefore, include all permanent, full-time employees in their group life insurance plan. An institution has sufficient flexibility to distinguish broad categories of need through various methods of assigning insurance amounts: by age, marital status, job category, rank, salary level, or a combination of these factors.

When the employer pays the entire premium, all eligible staff members automatically participate. If the employee pays a part or all of the premium, participation in the plan may be required by the employer as a condition of employment, but usually is not, and the plan remains voluntary. Insurers require medical evidence of insurability for individuals electing coverage more than 31 days after they become eligible, except during periodic open enrollment periods.

Waiting Period. A majority of both two- and four-year institutions report relatively short waiting periods for all employee classes, although independent institutions specify somewhat longer waiting periods than public, particularly for clerical-service employees (see Exhibit 2). The latter may reflect a reasonable attempt to reduce administrative costs through assigning longer waiting periods to employee groups with a high-turnover rate. Plans with a one-month-or-less waiting period frequently specify that new employees may join the plan at the start of the first month following the date of employment.

Exhibit 2: Waiting Period Before Group Life Insurance Coverage Begins, Two- and Four-Year Institutions

	Faculty [a]				Clerical-Service			
	Public		Independent		Public		Independent	
	Percent Institutions	Percent Employees	Percent Institutions	Percent Employees	Percent Institutions	Percent Employees	Percent Institutions	Percent Employees
Four-Year Institutions	n=433	n=225,459	n=769	n=114,807	n=430	n=388,434	n=741	n=178,775
1 month or less	84.1	87.8	79.5	81.3	81.2	88.3	60.4	62.0
2 to 6 months	12.0	8.3	11.8	8.9	14.2	7.8	28.1	27.9
To plan anniversary date	3.0	2.3	3.1	1.6	2.8	1.5	1.8	0.7
Other	0.9	1.6	5.2	7.3	1.6	2.3	9.2	8.8
No response	—	—	0.4	0.4	0.2	0.1	0.5	0.6
Two-Year Institutions	n=528	n=59,332	n=61	n=1,795	n=522	n=58,282	n=57	n=1,758
1 month or less	86.9	82.8	72.2	73.9	85.9	84.9	63.2	55.1
2 to 6 months	10.2	11.9	8.2	7.9	11.5	10.8	17.5	27.4
To plan anniversary date	1.5	2.8	4.9	3.6	1.5	2.3	3.5	2.1
Other	0.6	0.6	13.1	13.9	0.8	0.8	14.0	15.2
No response	0.8	1.9	1.6	0.7	0.4	1.2	1.8	0.2

[a] Administrative and other professional personnel similar to faculty.

Exhibit 3: Employer and Employee Contributions to the Cost of Group Life Insurance Plans

	Faculty [a]				Clerical-Service			
	Public		Independent		Public		Independent	
	Percent Institutions	Percent Employees	Percent Institutions	Percent Employees	Percent Institutions	Percent Employees	Percent Institutions	Percent Employees
Four-Year Institutions	n=433	n=225,459	n=769	n=114,807	n=430	n=388,434	n=741	n=178,775
Employer pays full cost	40.9	38.6	60.6	51.5	40.5	34.0	62.5	53.8
Employer-employee share cost	44.1	48.3	37.3	47.8	44.3	54.8	35.2	45.6
Employee pays full cost	14.3	12.9	2.1	0.7	14.7	11.0	2.2	0.5
No response	0.7	0.2	—	—	0.5	0.2	0.1	0.1
Two-Year Institutions	n=528	n=59,232	n=61	n=1,795	n=522	n=58,282	n=57	n=1,785
Employer pays full cost	60.6	67.1	62.3	59.5	59.4	67.9	61.4	63.3
Employer-employee share cost	34.8	29.2	36.1	37.4	35.8	28.9	38.6	36.7
Employee pays full cost	4.4	3.3	—	—	4.6	2.9	—	—
No response	0.2	0.4	1.6	3.1	0.2	0.3	—	—

[a] Administrative and other professional personnel similar to faculty.

Contributions. The cost of group life insurance may be paid for entirely by the employer (noncontributory), entirely by the employee, or shared (see Exhibit 3). At four-year institutions, about 40 percent of public and 60 percent of independent institutions pay the full cost for both faculty and clerical-service employees. About 60 percent of both public and independent two-year institutions pay the full cost.

Thirty-eight states require that private employers pay at least a part of the cost of a group life insurance plan. Thirty-two states have this requirement for public employers. About 44 percent of public four-year and 35 percent of public two-year institutions report a cost sharing arrangement between employer and employee; among two-year institutions, 37 percent (public and independent) report cost sharing. When costs are shared, the employee contribution is usually expressed as a monthly amount per $1,000 of insurance, rarely exceeding 60 cents a month per $1,000; the employer's share of the plan cost increases for individual employees as they grow older. Under a schedule of insurance that decreases as the employee's age increases, the employer may pay a fixed amount for each individual. In setting the employee contribution, it should be an amount per $1,000 of insurance that is less than the net cost for which the individual on his or her own can buy TIAA or other individual term life insurance.

The plans in which the employee pays the full cost are primarily at public institutions and constitute a small number: about 14 percent of public four-year and about 4 percent of public two-year institutions. As mentioned above, many states require employers to share in the cost of group life insurance; group life sponsored by employee associations (such as state educational associations or professional organizations), however, may be paid for wholly by the plan participants. Some of the reported employee-pay-all plans may, therefore, be association plans to which a substantial number of employees subscribe.

Coverage for Dependents. Until recent years, most state insurance laws did not permit group life plans to include insurance on the lives of employees' dependents. At present, 39 states now permit insurers to write group dependent life insurance within specified limits. The usual limit for a spouse is the lesser of 50 percent of the employee insurance benefit or a flat dollar amount, varying by state from $5,000 to $20,000. For children, the insurance benefit is usually limited to $5,000, with some states specifying lesser amounts for children under given ages. In some plans, dependent spouse coverage ceases at a specified age of the spouse.

Coverage During Retirement. When life insurance coverage is continued for retirees, the insurance is normally reduced. 60 percent of public and 30 percent of independent four-year institutions report some group insurance coverage for retired employees. The figures for two-year institutions continuing insurance for retirees are 38 percent public, and 14 percent independent.

Institutions reported a wide range in the relative roles of employee and retiree in paying for retired group life coverage. For example, the employer pays the full cost for retired faculty at about half of the independent four-year institutions with this coverage, while the retired faculty member pays the full cost of retired coverage at about half of the public four-year institutions. About 20 percent of both public and independent four-year institutions report a cost sharing arrangement for retired faculty coverage. For clerical-service employees little over half of the independent and a third of public four-year institutions report cost sharing between employer and employee; about 10 percent of independent and a third of public four-year institutions report an employer-pay-all arrangement. For both retired faculty and clerical-service employees at two-year institutions, each of the contribution approaches was reported by about 25 percent of respondents.

The cost of group life insurance at the higher ages—and thus for retired staff members—is dramatically high. For example, the cost at age 70 is about 18 times the cost for the same amount of coverage at age 35 and about double the cost at age 60. Fortunately, the need for insurance declines as insurance costs rise. By the time a person attains retirement age, dependent children usually have become self-supporting adults. At the start of retirement income, the individual will usually select an option that replaces insurance by continuing income for life to a spouse in the event the retired employee dies first. If the money is available, therefore, it is generally more appropriately applied toward improvements in the retirement plan, greater life insurance protection for the active staff, or perhaps improvements in the health insurance plan for both active and retired employees. ◆